

The Other Side of The Street September 30, 2007

Comments

Happy October! Month of World Series, Halloween and ghosts of market crashes past.

While the US equities continued to treat the Fed as omnipotent, this were not so sanguine in housing and credit. You can read at your leisure the more in depth stories below, but these excerpts will give you a flavor:

- **``Mortgage rates won't stimulate demand," said Scott Anderson, senior economist at Wells Fargo & Co. in Minneapolis. ``The Fed may be a little impotent here because what caused this housing crash was overpriced housing, not mortgages.**
- **. Tighter lending guidelines are the biggest challenge facing borrowers, not mortgage rates, said Scott Tucker, a mortgage marketing consultant in Chicago who has a Web site he calls Mortgage Marketing Genius. Lenders are requiring borrowers to make higher down payments and prove they have cash reserves they can use for future payments, he said.**

We shall continue to beat the warning drum whether anyone is listening or not. The reality of the housing market is that its decline is in the very early stages. Over the weekend I looked at the data underlying the new housing report. While the headline was grim the underlying numbers are even worse. The average price of a new home is up nearly 40% in six years. The homes on the market top 500K and the ratio of homes available to annual sales has moved from 1 available to 2 sold to 1 available for about 1.2 sold. Further the inventory based on average sales in the pre-bubble 2000-2 period is well over a year. All of which indicates the blood shed will continue for some time.

A few other snippets from weekend reading:

- LIBOR spreads remain double what they were in July and prior months
- The cost of mortgages will not drop based on Fed cuts. Mortgages are based on long term rates and those rates ROSE because of fears that the Fed free money policy will stoke inflation and a decimated exchange rate will cause the foreigners who own our debt to demand higher returns to reflect increased risk (a thought to the 30 year old MBAs running YOUR money). The result, the price of a 30 year fixed mortgage rose "seven basis points" after the cut. See *Still Gloomy* The Economist SPET 29 p. 81.
- Another reason why mortgages will not drop is that the whole Alt A, sub prime, prime scheme is not based on science, it is instead a fluid process used to evaluate likelihood of repayment. The idea is to price risk into the loan and the more the credit markets tighten and lending standards return to average, the more the

spread increases. In fact, while the fed cut 50 basis points, the spread on sub prime ROSE 190 basis points (i.e. it is a CREDIT not an interest rate problem)

- Further changes in mortgage lending include: the tightening of the definition of prime; any variance from prime raises rates; small FICO differences now raise rates, sometimes significantly; LTV differences now raise rates significantly; no more 100% LTVs (this and last will have a dramatic effect in a market where prices FALL); second mortgages gone; 2/28 arms gone; 70-80 point basis hike for near prime loans even with 20% down. See The Survival Report SEPT 2007
- The historic stats on markets going up X percent after a Fed cut are meaningless in this instance. In fact in 2001, after a 100 basis point cut in January market plunged the next 18 months bottoming nearly 70% below the first cut rally. (that rally lasted a little more than two weeks, so stay tuned).
- 56% of US mortgages were packaged in derivatives, nearly 70% of sub-prime in 2006. As we all know anything with the word sub-prime has become an anathema. This stigma will dry up the major source of money for sub-prime and indeed mortgage loans. Fed short term interest cuts do not address new sources of funding in the least. See *When it Goes wrong . . .* The Economist Sept 22 p.85
- Many of those who were purchasing the derivatives had little idea of what they were buying. “The past few weeks have shown that financiers did not fully understand what they were trading.” CDOs were “being used to transform existing debt instruments that [were] accurately priced into new ones that were overvalued.” This problem was exponentially compounded by the use of leverage to invest in the CDOs. See *When it Goes wrong . . .* The Economist Sept 22 p.86
- Securitization has allowed regulated entities to work around the safeguard inherent in the regulation by moving assets off balance sheet. If off balance sheet sounds familiar think Enron.
- The rush back toward new highs once again demonstrates that far from using the opportunity to lower risk, the twenty somethings think the party will never end. The lesson that “there are cycles in all things: underpricing begets excess, which begets reckoning” will be learned at some point soon. Quote from *Will the credit crisis trigger a downturn?* The Economist SEPT 22 p. 15

Finally, my weekend reading also included a book Market Panic, which is a study of the history of market panics and crashes, cause and effect. In the first chapter there is a section on “telling signs” that “help to forecast the imminence of coming disasters.” P. 15 they include:

- Sharp rises in lending
- Sharp increases in merger and acquisition activity
- Rush of new stock issues

- Stock price news elevated to front page
- Talk of new eras
- Wall Street on hiring spree
- Conspicuous spending and lavish behavior by financial institutions

I will leave it to you to draw your own conclusions.

We will see . . .

Credit

- Sept. 27 (Bloomberg) -- The U.S. commercial paper market **shrank for the seventh straight week** as the Federal Reserve's interest rate cut fails to improve conditions for short-term credit. **Debt maturing in 270 days or less continued its biggest slump in seven years, falling \$13.6 billion in the week ended yesterday to a seasonally adjusted \$1.855 trillion, including a \$17.3 billion decline in asset-backed commercial paper, according to the Federal Reserve in Washington.** The week's decline is smaller than the previous week's drop of \$48.1 billion, **a sign that buyers are starting to return to the market after the Fed's half-point reduction Sept. 18 in its benchmark interest rate.** [or maybe not since last week was in fact the week the Fed cut and the decline was nearly 50B. by the way SEPT numbers were -54, -8.2, -48.1 and this weeks down 13.6. in August CP outstanding dropped 259B wiping out the entire 2007 gain. FYE96 total outstanding was 1,981B, as of SEPT 26 it is 1,855B. as Yogi said – you can look it up <http://www.federalreserve.gov/releases/cp/outstandings.htm>] The lower Fed funds rate is helping to offset investor concerns that losses sparked by defaults on subprime mortgages may spread further into credit markets. "Stability is what should be expected," said Tony Crescenzi, chief bond market strategist at Miller Tabak & Co. in New York and editor of the fourth edition of Stigum's Money Market. "The weaker economy could cause it to slip, but I feel that most of the purging of issuers deemed risky has already occurred." The fall extended a six-week, \$354.5 billion drop in outstanding commercial paper as investors retreated to the safety of government debt. Commercial paper is bought by money market funds and mutual funds that invest in short-term debt securities. In asset-backed commercial paper, the cash is used to buy mortgages, bonds, credit card and trade receivables, as well as car loans. Some of the programs are backed by subprime loans, issued to borrowers with poor credit or high debt **Commercial Paper Market in U.S. Shrinks for Seventh Week in Row, Fed Says** <http://www.stockhouse.ca/mediascan/news.asp?newsid=9219759>
- NEW YORK, Sept 27 (Reuters) - **The U.S. Federal Reserve said on Thursday it added a total of \$38 billion of temporary reserves to the banking system through four separate repurchase agreements.** The total amount matched \$38 billion of repurchase operations on Aug. 10, which is loosely seen as the beginning of a crunch in the credit markets, when companies began to have difficulty accessing lines of credit due to problems that began in the subprime mortgage market. But some analysts said Thursday's action by the Fed may not have entirely been an effort to re-ignite liquidity in credit

markets, but may have more to do with making cash available to meet quarter-end needs, when hedge funds and other financial operations square their books. **"They want to make sure things run and flow smoothly over the quarter end -- it's not only happening in this country but it's happening in Europe as well,"** [it is just astounding to me how the Street falls all over itself to explain away any thing it can claim is an anomaly. If this is just being done so end of Q can "run and flow smoothly" why doesn't it happen every Q? the reality is that the Fed and its counterparts know there is a disaster on hand and will do anything to prevent the markets from melting down. Won't work, but they are giving it the old college try] said Jeff Hlavacek, director of fixed income trading at BNP Paribas in New York. Previous to Aug. 10, the largest amount of repurchase operations in a single day was on Sept 19, 2001, when the Fed undertook \$50.35 billion of repurchase agreements. Thursday's operations included \$6 billion of 14-day repurchase agreements, \$20 billion of 7-day repurchase agreements, \$7 billion of 4-day repurchase agreements and \$5 billion of overnight repurchase agreements. **The 7-day repurchase on Thursday was the largest single such operation since Aug. 15, 2003,** when the Fed also added \$20 billion in a single, 3-day repurchase agreement, a Fed spokesman said. **The last time the Fed undertook four repurchase agreements in a single day was also on Sept. 19, 2001.** Federal funds, the benchmark overnight lending rate to banks, last traded on the open market at 5.00 percent, above the Fed's targeted rate of 4.75 percent. Fed funds traded on the open market at 5.063 percent early on Thursday morning ahead of and during the Fed operations. [ignore the man behind the curtain. There is nothing to see here. Please just return to chanting "don't fight the Fed"] **Fed adds total \$38 bln reserves via repos on Thurs**
http://today.reuters.com/news/articleinvesting.aspx?type=bondsNews&storyID=2007-09-27T151803Z_01_N27351737_RTRIDST_0_USA-MARKETS-FEDOPS-AMOUNT-UPDATE-2.XML

- Sept. 27 (Bloomberg) -- Banks and investors seeking to restructure about C\$35 billion (\$35 billion) of Canadian asset-backed commercial paper said they need more time to come to an agreement. "I'm going to damn well do everything I can to have a solution before year-end," Purdy Crawford, a Toronto-based lawyer who chairs the investor committee, said today on a conference call. "What we're trying to do is avoid a meltdown, which would not be in the interest of any of the investors." The market for Canadian commercial paper has been roiled after Coventree Inc. and other non-bank funds failed to roll over most of their maturing debt in mid-August because investors feared possible ties to subprime mortgages. Banks refused to provide back up financing, effectively shutting the market, prompting 10 banks and money managers to propose conversions into longer-term debt. Under the so-called Montreal proposal announced Aug. 16, the group, which includes banks and pension funds, would convert the commercial paper into floating-rate notes. The group has until Oct. 15 to come up with a plan for restructuring the debt. "Given the highly complex process and the significant number of stakeholders involved, a successful restructuring cannot be completed by mid-October," Crawford said in a statement. The investor group has made "significant progress" in its efforts and hired JPMorgan & Chase Co., the third-largest U.S. bank, as a financial adviser, Crawford told reporters on a conference call. **Canadian Commercial Paper Investors Seek Extension**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aNOo7PsvjV68&refer=home>

- Sept. 27 (Bloomberg) -- The European Central Bank lent the most money at its penalty rate in almost three years, **suggesting at least one bank is still being shut out of credit markets**. The ECB loaned 3.9 billion euros (\$5.5 billion) at its marginal rate of 5 percent yesterday, the most since October 2004, the Frankfurt-based central bank said in a daily borrowing-requirement statement today. It didn't provide details of which bank or banks asked for the money. "No-one knows where the bodies are buried," said Stuart Thomson, who helps oversee about \$46 billion in bonds at Resolution Investment Management in Glasgow, Scotland. **"It's likely that money markets are going to be in a state of shock for some time to come."** Banks are struggling to raise money as the credit slump makes financial institutions reluctant to lend to each other. The rate banks pay one another for three-month money in euros rose to 4.79 percent today, a six-year high, according to the British Bankers' Association. The ECB has held seven special auctions to help cash-strapped banks since Aug. 9. **[i.e. one cannot solve credit quality problems with interest rate changes. When this filters through to the mindless speculators on the Street is an open question.]** **Banks Borrow 3.9 Billion Euros at ECB's Penalty Rate**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aH7YmBb8q0Vo&refer=home>
- Sept. 25 (Bloomberg) -- **The risk of owning European corporate bonds rose the most in almost a month on concern a worsening U.S. housing market will continue to push up company borrowing costs, according to traders of credit-default swaps.** Contracts on the iTraxx Crossover Series 8 Index of 50 European companies with mostly high-risk, high-yield credit ratings **increased 17 basis points to 314 basis points**, according to JPMorgan Chase & Co. The index, a benchmark for the cost of protecting bonds against default, rises when perceptions of credit quality deteriorate. **The International Monetary Fund yesterday said credit markets "may not normalize soon" as the effects of the U.S. housing slump are "likely to be protracted."** Corporate investment may be curtailed because of higher debt costs, the IMF said. **"It seems the clouds are returning,"** said Jochen Felsenheimer, head of credit derivatives strategy at UniCredit SpA in Munich. "The IMF doesn't rule out a severe tightening in credit conditions." **Corporate Bond Risk Rises Amid Concern Credit Woes Will Persist**
<http://www.bloomberg.com/apps/news?pid=20601009&sid=aDul5AfxqGDk&refer=bond>
- Sept. 25 (Bloomberg) -- Bond insurers owned by AMBAC Financial Group Inc. and FGIC Corp. may need to raise capital to maintain their top credit ratings if losses worsen on subprime mortgage securities, Moody's Investors Service said. Under what Moody's called its "most stressful" scenario, **losses on subprime mortgages backing securities could reach 14 percent, causing AMBAC, FGIC, Security Capital Assurance Ltd. and CIFG Assurance North America Inc. to fall short of the capital needed to keep their Aaa ratings. The most likely source of losses would be from guarantees the companies made on collateralized debt obligations,** which may contain securities backed by mortgages to borrowers with poor credit scores. Earlier this month, Fitch conducted a stress test on the bond insurers' subprime holdings and determined that FGIC Corp. would need to raise \$387.3 million of capital in its worst-case scenario to maintain

its rating. Standard & Poor's version of a subprime stress test found that all the insurers would have sufficient capital. **AMBAC, FGIC, May Need Capital for Subprime Losses**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aESV8c5SvG8g&refer=home>

- Sept. 25 (Bloomberg) -- On Baffin Island in the Arctic Circle, Baffinland Iron Mines Corp. almost missed its window to ship provisions to workers before winter arrives. The delay came not from the weather, but from a sudden freeze in the market for short-term debt 2,000 miles south in Toronto. **Baffinland ran short of funds to pay for food, fuel and drilling equipment after investing in commercial paper that borrowers couldn't repay. Without the money, the company had to arrange an emergency line of credit before shipping lanes froze over.** The Canadian cash crunch that started with defaults on subprime mortgages in Southern California and Florida has hurt more than 25 companies that invested in commercial paper, including Sun-Times Media Group Inc. and Canada Post, the nation's mail service. Baffinland has 95 percent of its cash in Canadian commercial paper, debt that is due in 364 days or less. **Investors fled Canada's asset-backed commercial paper,** paralyzing the C\$40 billion market for debt that carried the highest credit ratings, after losses from home loans to people with poor credit histories roiled global credit markets. **"Anytime there's a reliance on short-term funding without specific alternative plans for liquidity, that's going to be suspect,"** said John Hollyer, principal at Valley Forge, Pennsylvania-based Vanguard Group Inc., which has \$170 billion in money market funds under management. **"That's the overriding lesson of what happened here."** Debt Extension A group of 10 banks and pension funds agreed on Aug. 16 to convert C\$35 billion of debt into notes maturing in as much as 10 years. Terms of the debt won't be released until mid-October, said Purdy Crawford, a lawyer at the Toronto firm Osler, Hoskin & Harcourt LLP who heads the group. Until then, investors won't know when they will get their money back, or whether they will be repaid in full. Companies invested in the debt in part because of the ratings from DBRS, formerly Dominion Bond Rating Service, said Robin Roopchan, director of investor relations at Ontario Power Generation in Toronto, **which bought C\$103 million of the securities, none of which has been repaid.** **Subprime Panic Freezes \$40 Billion of Canadian Commercial Paper**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=as9QkuEv9Wqw&refer=home>

- The more immediate problem facing the stock market has very little to do with the fed funds rate. A major shortage of information in the multitrillion-dollar commercial paper and mortgage-backed security markets has slowed activity down dramatically. Nobody seems to know who will ultimately be holding the bag on the huge pile of bad loans working their way through the system. Not even the all-knowing Ben Bernanke can answer that. <http://www.agorafinancial.com>
- Sept. 24 (Bloomberg) -- **Global economic instability stemming from credit-market turmoil in the U.S. is "likely to be protracted," the International Monetary Fund said five months after predicting little chance of a "major dislocation."** **"The potential consequences of this episode should not be underestimated,"** the IMF said in its Global Financial Stability Report released today in Washington. **"Credit conditions may**

not normalize soon, and some of the practices that have developed in the structured credit markets will have to change." In April the fund reviewed rising mortgage delinquencies and credit conditions more broadly, concluding that a "major dislocation still appears to be a low-probability event." Since then, "downside risks have increased significantly and even if those risks fail to materialize, the implications of this period of turbulence will be significant and far reaching," today's report said. **There is likely to be some slowdown in global economic growth, which "remains solid."** [this myth will be clung to until even the trailing indicators show a global recession.] The fund also said the methodology of credit-rating companies, some of which gave high ratings to subprime mortgage securities that have plummeted in value, needs to be examined. The complexity of many of these securities may have made it difficult for investors to assess their worth based on the assigned ratings. "In the case of complex structured credit products, investors need to look behind the ratings," the report said. More Transparency Regulators and investors will have to work together to strengthen financial markets to prevent a recurrence, and develop ways to improve the spread of accurate and timely information to help markets assess risk, the report said. The report concluded that companies have mostly been able to secure financing. "However, the adjustment period is continuing, and if the intermediation process stalls and financial conditions deteriorate further, the global financial sector and real economy could experience more serious negative repercussions," the report said. **"The chances of a more severe tightening of credit conditions cannot be dismissed."** [unless you are a Wall Street banker or senior government official in which case you do so with impunity] **IMF Says U.S. Credit-Market Fallout 'Likely to Be Protracted'**
http://www.bloomberg.com/apps/news?pid=20601087&sid=af8JR2uHgf_s&refer=home

Commercial Real Estate

- Sept. 25 (Bloomberg) -- Kenneth Heebner, manager of the top-ranked U.S. real-estate mutual fund, sold stakes in New York property owners because prices will decline as banks, hedge funds and buyout firms fire workers. The \$1.7 billion CGM Realty Fund divested SL Green Realty Corp., Manhattan's biggest office landlord, since the end of June, Heebner said today in an interview in Boston. The manager, whose fund has returned an average of 40 percent a year since September 2002, cut stakes in real estate investment trusts to a quarter of assets from 75 percent in December. "You're seeing a retrenchment in the private-equity, hedge-fund and brokerage businesses, and there could be a lot of layoffs," Heebner, 66, said. "That could have a devastating impact on high-end residential real estate in New York. Appetite for office space will also decline." [looks like more smart money getting out] **Heebner, Top Property-Fund Manager, Sells Manhattan Real Estate**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=atWb41ceOJck&refer=home>

Commodities

Currency

- That the dollar will now be sacrificed is no longer up for debate. Thanks to the unprecedented \$6 trillion dollars in foreign hands, this is no little thing. As has happened in every currency crisis since that term was printed, holders of the bedeviled currency will now either dump it, **or demand ever-higher interest rates to continue holding it.**

Daily wealth email

- Despite the talk about what the rate cuts mean for debtors in need of loans, the reaction of foreign creditors is far more important. **Clear signs are emerging that foreign central banks are drastically slowing their purchases of U.S. Treasury, agency, and mortgage-backed securities.** Who can blame them now that the Fed isn't even bothering to obfuscate its inflation-promoting activities? China, in particular, is reaching the point at which it sees very little benefit from expanding its portfolio of U.S. Treasuries. Rising consumer price inflation calls for an end to China's currency "sterilization" policies, so it's hoarding of U.S. dollars will slow. A rising yuan/U.S. dollar exchange rate will make oil and all other commodities cheaper for them, Chinese commodity consumption will rise, and the U.S. will be forced into a position of consuming less and doing so at higher U.S. dollar prices. **The great free lunch in which the world absorbs limitless amounts of U.S. dollars is ending; it was only in the "appetizer" phase during the 2001-2004 Fed easing cycle.** So beware the comments of those who parrot the deceptively simple phrase, "A weak dollar is good for the U.S. economy." It's clearly bad when a debtor nation loudly broadcasts that it will pay off its debts in debased currency; we shouldn't be surprised if foreign capital thinks twice about committing to the U.S. <http://www.agorafinancial.com>
- Sept. 25 (Bloomberg) -- The yen gained versus the British pound and the euro after the Independent newspaper reported the U.K.'s deposit protection plan needs more cash after the bail out of mortgage lender Northern Rock Plc. The yen climbed against the 16 most-active currencies as investors reduced holdings of higher-yielding assets funded by loans from Japan, known as carry trades. The U.K. Financial Services Compensation Scheme holds funds of only 4.4 million pounds (\$8.9 million), while a similar U.S. fund has \$49 billion, according to the article on the newspaper's Web site. "The news caused risk aversion, prompting yen-buying," said Yuji Saito, head of the foreign-exchange sales department at Societe Generale SA in Tokyo. **Yen Gains as Report on U.K Deposit Scheme**

	Causes	Risk	Aversion

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aLVINLx70Pkw&refer=home>

Diversification

Derivatives

- *"The sale of collateralized debt obligations around the world has fallen to \$53 billion in the third quarter, from \$120 billion in the same quarter last year," writes Barron's. "The decline in issuance has gotten worse as the quarter has progressed: \$32 billion*

was sold in July, \$17 billion in August, and only \$5 billion in September.” This massive decline in CDO issuance is sure to slow down credit growth, so you should avoid companies whose entire business model depends on the health of credit markets and focus on companies with strong, sustainable cash flows. <http://www.agorafinancial.com>

Housing

- Sept. 27 (Bloomberg) -- Fannie Mae Chief Executive Officer Daniel Mudd said the housing slump will last beyond next year, dragging down home prices and increasing credit losses. “We don't think we hit a bottom until the end of '08 and then we have some period of time to work our way back up again,” Mudd said today in an interview in Washington. The outlook from Fannie Mae, the largest source of money for U.S. home loans, is more bearish than that of the National Association of Realtors, which this month predicted new home sales will stop falling in the first quarter of 2008. Pessimism about the housing market is growing as prices fall and demand declines. Purchases of new homes in the U.S. dropped more than forecast in August and prices plunged by the most in almost four decades, the Commerce Department said today in Washington. U.S. home prices will fall 2 percent to 4 percent this year, and “more next year,” Mudd said. Mudd is right to be concerned, said Jim Vogel, head of agency debt research at FTN Financial in Memphis, Tennessee. The prediction “isn't too negative at all,” Vogel said. “The infrastructure damage to mortgage finance this year has been breathtaking.” **Housing Slump to Last Beyond 2008, Fannie's Mudd Says** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aroSfH1NtoLE&refer=home>
- Sept. 27 (Bloomberg) -- **Sales of new homes in the U.S. dropped more than forecast in August and prices plunged by the most since 1970**, underscoring the Federal Reserve's concern about the broader economy. Purchases declined 8.3 percent to an annual pace of 795,000, the lowest level in more than seven years, the Commerce Department said today in Washington. **The median price dropped 7.5 percent from a year ago**. The figures suggest home construction will extend its deepest slump since 1991, and consumers will have less home equity to tap for spending. Fannie Mae Chief Executive Officer Daniel Mudd said in an interview today that the industry won't hit a bottom until the end of next year, echoing comments by KB Home, the builder that hours earlier reported a third-quarter loss. “The housing market is not looking good for the months ahead,” said Richard DeKaser, chief economist at National City Corp. in Cleveland. “We're likely to see an intensification of the impact housing has on growth.” Economists forecast sales would fall to an 825,000 pace from a previously reported 870,000 in July, based on the median estimate of forecasts in a Bloomberg News survey. **Compared with a year earlier, purchases were down 21 percent**. Summers on Recession The severity of the slump poses a risk that housing woes will spill over into the broader economy. Former Treasury Secretary Lawrence Summers said there is nearly an even chance the U.S. will fall into recession after almost six years of growth. The chance of a contraction “is not quite 50 percent, but somewhere in that neighborhood,” Summers, now a professor at Harvard University in Cambridge, Massachusetts, said in an interview today. The economy grew in the second quarter at a revised 3.8 percent annual pace, the most in more than a year, a separate Commerce Department report today showed. The gain compares with a previous estimate of 4 percent and a 0.6 percent increase in the first

three months of the year. The figures didn't reflect last month's credit-market turmoil, which heightened concern the expansion might be cut short. **“The jobs environment has up until now been better than people think, but I think it's going to get weaker from here,”** David Malpass, chief economist at Bear Stearns & Co. in New York, said in an interview. Treasury notes rose after the housing report, and later extended gains. The yield on the benchmark 10-year note dropped to 4.57 percent at 2:21 p.m. in New York, from 4.62 percent late yesterday. Stocks were little changed, with the Dow Jones Industrial Average at 13,898.2, up 20 points. The number of homes for sale at the end of the month fell 1.5 percent to 529,000. [I looked back at prior Augusts and the numbers were 2001 – 307,000, 2002 - **The inventory of unsold homes jumped to 8.2 months at the current sales pace.** The number of properties completed and waiting to be sold rose by 2,000 to 180,000. Losing Confidence Waning demand and a rise in cancellations caused builders to lose confidence and scale back projects. An index of builder sentiment this month matched a record low. Companies including Red Bank, New Jersey-based Hovnanian Enterprises Inc. have increased incentives to work down inventories that swelled as sales slowed. “We see no signs that the housing market is stabilizing and believe it will be some time before a recovery begins, Jeffrey Mezger, chief executive officer of Los Angeles-based KB Home, said today in a statement. “The oversupply of unsold new and resale homes and downward pressure on new-home values has worsened in many of our markets.” **U.S. Economy: New-Home Sales Decline 8.3 Percent** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aoX7xdp64gRw&refer=home>

- Sept. 27 (Bloomberg) -- KB Home, the Los Angeles-based homebuilder that has lost more than half its market value this year, reported a third-quarter loss on lower sales and \$690 million in expenses to write down real estate. The net loss was \$35.6 million, or 46 cents a share, compared with net income of \$153.2 million, or \$1.90, a year earlier, KB Home said today in a statement. Revenue fell 32 percent to \$1.54 billion. Chief Executive Officer Jeffrey Mezger said in the statement he expects **“housing industry conditions to continue to worsen through the end of the year and into 2008.”** The company's shares dropped to a 4 1/2-year low yesterday as home prices have fallen and stricter lending standards resulting from the collapse of the subprime mortgage industry have cut demand. “The business risk for homebuilders is high and rising because of all the bad news out there,” said Joseph Snider, an analyst at Moody's Investors Service in New York. KB Home is “mitigating some of the horrible effects of the environment somewhat better than some of the other homebuilders” by paying debt and liquidating inventory, he said. KB Home was projected to report a loss in the three months ended Aug. 31 of 75 cents a share, excluding items, according to the average estimate of analysts in a Bloomberg survey. The company is the fifth-biggest U.S. homebuilder by sales. **“At this time, we see no signs that the housing market is stabilizing and believe it will be some time before a recovery begins,”** said Mezger in the statement. **“The oversupply of unsold new and resale homes and downward pressure on new home values has worsened in many of our markets as tighter lending standards, low affordability and greater buyer caution suppress demand.”** **KB Home Reports Third-Quarter Loss on Sales Decline** [http://www.bloomberg.com/apps/news?pid=20601206&sid=aprE_dH_AqRk&refer=real estate](http://www.bloomberg.com/apps/news?pid=20601206&sid=aprE_dH_AqRk&refer=real%20estate)

- Sept 25 - **Inventories of unsold existing homes on the market rose by 0.4% to 4.58 million, representing a 10-month supply at the August sales rate, the realtors said. For single-family homes alone, the inventory represents a 9.8-month supply, the most since May 1989.** Inventory data are not seasonally adjusted. "The credit-market freeze in August no doubt contributed to the decline in sales," said Lawrence Yun, senior economist for the real estate trade group. Many loans that had been committed to fell through, Yun said, so the sales couldn't close. Existing-home sales are measured at closing. An informal survey of real estate brokers showed about 10% of jumbo loans were failing to close, Yun said. The increase in inventories was driven mostly by lower sales, not by more supply hitting the market. In unadjusted terms, 596,000 homes were listed for sale for the first time in August, the fewest listings for any August in seven years, Yun said. In recent years, about 700,000 or 800,000 homes would be listed in a typical August. **Glut of unsold homes rises to 18-year high [with interest rates expected to drop and no end in sight to the inventory glut, why in the world would you buy a house unless you absolutely had to?]** <http://www.marketwatch.com/news/story/glut-unsold-homes-rises-18-year/story.aspx?guid=%7BC02E6F86%2D2D23%2D4D45%2DA83D%2DBF973D6432B9%7D>
- Sept. 25 (Bloomberg) -- Home prices in 20 U.S. metropolitan areas fell the most on record in July, indicating the threat to consumer spending was rising even before credit markets seized up in August, a private survey showed today. Values dropped 3.9 percent in the 12 months through July, steeper than the 3.4 percent slump in June, according to the S&P/Case-Shiller home-price index. The index declined in January for the first time since the group started the measure in 2001, and has receded every month since then. **S&P/Case-Shiller Home Price Index Falls 3.9% in July** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aqOuSeaFXx3Y&refer=home>
- Sept. 25 (Bloomberg) -- Lennar Corp., the largest U.S. homebuilder, reported the biggest quarterly loss in its 53-year history after \$848 million of costs to write down the value of real estate. The shares fell as much as 6.9 percent. **"Heavy discounting by builders, and now the existing home market as well, has continued to drive pricing downward,"** Lennar said. Troubles in the mortgage market have led to higher cancellation rates, and the homebuilder said it continues to "adjust pricing to meet current market conditions." Lennar also said it has slashed its work force by 35% this year and sees further reductions in 4Q. **Lennar Reports Biggest Loss in Its 53-Year History** <http://www.bloomberg.com/apps/news?pid=20601087&sid=adeJzdWwzc4s&refer=home>

Housing Finance

- [there are a number of places this could have gone, but since the cuts were to "save housing" this is as good of a place as any. In plain English, the fed can cut rates all it wants, but it can't force the banks to lend at lower rates. What is in fact happening is the banks are putting more risk premium back in their loans, i.e. the spread is increasing by keeping lending rates constant and borrowing money at a lower rate. What the rate cut did was throw pensioners under the bus but did nothing to save those in foreclosure] But Robert McAdie, head of credit at Barclay's Capital, addressed the issue yesterday. He

noted that though the Fed may cut rates, and may bail out a few large speculators, **there is no guarantee that money will find its way into the hands of the people who really need it.** A bank can borrow from the Fed at the Fed's rigged rates, but that doesn't mean it isn't going to be careful with the money. Rates dropped after the Fed funds cut last week, but long-term finance rates actually went up...and the gap between the Fed's rate and the banks' own interbank lending rates remained unchanged. What gives? Lenders are still worried. They're afraid they might let out some money...and not get it back. **So, they demand a little extra return, as protection. In July, the spread between commercial paper and the fed funds rate was only four basis points. Now, it's 62.** Money is cheaper, generally, but as McAdie put it: "Cheap money is now history. There are not going to be any more of the big leveraged buy-out deals for a long time because the CLO [collateralized loan obligations] market that financed them is effectively closed."

- Sept. 28 (Bloomberg) -- More American homeowners are missing mortgage payments, pushing defaults on privately insured home loans up 30 percent last month from year-earlier levels, according to a trade group. Borrowers more than 60 days behind rose to 58,441 in August, Washington-based Mortgage Insurance Companies of America said today on its Web site. The report bolsters data that show the worst U.S. housing slump in 16 years may be getting deeper. Foreclosures set a record in the second quarter, according to the Mortgage Bankers Association, and last month lenders sent a record 108,716 notices of default, auction or repossession, RealtyTrac Inc. reported. Fannie Mae Chief Executive Officer Daniel Mudd said yesterday the weakness will last beyond 2008, increasing credit losses. "These defaults are a lagging indicator, so they're probably going to get worse from here," said Michael Darda, economist at Greenwich, Connecticut-based equity trading firm MKM Partners LP. Mortgage insurers, which reimburse home lenders when borrowers don't pay, have stumbled in stock market trading as the record defaults increased claims. MGIC Investment Corp., the largest U.S. mortgage insurer, lost about half its value this year. PMI Group Inc., the second-largest, lost more than 30 percent. Third-ranked Radian Group Inc., the insurer whose acquisition by MGIC was scuttled, has fallen almost 60 percent. MGIC fell 36 cents to \$32.31 today in 4:05 p.m. New York Stock Exchange composite trading. PMI declined 18 cents to \$32.70 and Radian climbed 24 cents to \$23.28. Risk and Reward Lenders often require homeowners to buy private mortgage insurance if they contribute less than 20 percent in cash for a home purchase. The report said 197,169 U.S. borrowers used the coverage in August, 15 percent more than in July. Insurers are selling more coverage as lenders seek to lower their risk and make loans attractive to investors. Policies sold to homeowners surged 66 percent to \$23.8 billion last month over the year-earlier period, the mortgage insurance trade group said. Delinquent policyholders who resumed paying on time rose by 11 percent from July to 33,811, results that "appear encouraging" to Michael Grasher, analyst at Piper Jaffray & Co. in Chicago. "While we expect investors remain guarded on the group, numbers out this morning do not reflect a level of risk commensurate with existing valuations" of some mortgage insurers, Grasher said today in a research note. The trade group's report draws data from six of the seven U.S. mortgage insurers, excluding Radian, which isn't an association member. **Defaults on Insured Mortgages**

http://www.bloomberg.com/apps/news?pid=20601087&sid=aEDo0hL_qfFI&refer=home

- Sept. 27 (Bloomberg) -- Foxtons, a discount realtor that brokered home sales for a 3 percent commission, shut its U.S. operations and may file for bankruptcy amid the slowing housing market. The West Long Branch, New Jersey-based company laid off 350 of 380 employees, Foxtons said today in an e-mailed statement. It had realty offices in New York, New Jersey and Connecticut. "The plain fact is that we have been battling against a real estate market that recently has turned into a sharp decline, and the company no longer has the liquidity to operate," John D. Blomquist, the company's senior vice president and general counsel, said in the statement. **Foxtons Shuts U.S. Operations, Blames Housing Slump**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=atKyFP9FIXV8&refer=home>
- Sept. 24 (Bloomberg) -- Americans may be disappointed that the Federal Reserve's interest rate cut won't translate into lower monthly mortgage payments and a revival of the housing market. **"Mortgage rates won't stimulate demand," said Scott Anderson, senior economist at Wells Fargo & Co. in Minneapolis. "The Fed may be a little impotent here because what caused this housing crash was overpriced housing, not mortgages."** The average 30-year fixed mortgage rose 0.10 of a percentage point to 6.08 percent today, according to North Palm Beach, Florida-based Bankrate.com's survey of banks and lenders in the 50 U.S. states. It peaked this year at 6.42 percent on June 14, Bankrate.com said. The housing industry, now in the second year of its worst recession since 1991, erased 0.6 percent from gross domestic product in the second quarter. Home prices probably will fall on a year-over-year basis for the first time since the Great Depression of the 1930s, Anderson said. Investors concerned about inflation following the Fed's half-point interest rate cut have driven up the yield of 10-year Treasury notes by 23 basis points, or 0.23 of a percentage point, to 4.7 percent. The increase has dashed hopes that lower home-loan costs might entice more Americans to overcome their fear of falling prices and buy homes. The Sept. 18 decision by the Federal Open Market Committee to reduce its benchmark interest rate to 4.75 percent from 5.25 percent doesn't mean mortgages will follow, said Michael Darda, chief economist at the equity trading and research firm MKM Partners LP in Greenwich, Connecticut. **Bond Yields "Lock in your rate now," Darda said. "Long-term bond yields will put a floor under how much further mortgage payments will go down."** The Fed lowered its target for federal funds 13 times from Jan. 3, 2001, to June 25, 2003. After each cut, mortgage costs fell eight times and rose five times, according to Bankrate.com. Sales of existing homes declined for the fifth straight month in July, falling 9 percent from a year earlier, according to the Chicago-based National Association of Realtors. New-home sales rose 2.8 percent in July, according to the Commerce Department in Washington. Sales dropped 10.2 percent in July on a year-over-year percentage basis, according to the department. Rising defaults in subprime mortgages, made to borrowers with bad or incomplete credit histories, killed demand for mortgage-backed securities, stopping the flow of money to lenders and making it more difficult for home buyers to secure loans. **Tighter Credit** "We are, at the Federal Reserve, mostly concerned with making sure that markets continue to function normally and that the tightening of credit that has happened

does not have adverse effects on the broader economy," Chairman Ben S. Bernanke told Congress last week. Total mortgage originations fell 8.8 percent in the second quarter to \$730 billion from a year earlier, according to Inside Mortgage Finance, an industry newsletter. The number of subprime mortgages fell 66 percent to \$56 billion, according to the newsletter. Mortgage originations may drop to \$460 billion in the fourth quarter, down 36 percent from a year earlier, according to the Mortgage Bankers Association in Washington. Treasury Secretary Henry Paulson told Congress on Sept. 20 certain markets are "still operating under stress," including the one for jumbo loans, or mortgages of more than \$417,000. Jumbo Loans Average rates for 30-year fixed jumbo mortgages rose to 7 percent today from 6.96 percent last week, Bankrate.com said. RealtyTrac Inc., an industry research firm in Irvine, California, said last week that the number of Americans who may lose their homes to foreclosure more than doubled to 108,716 in August from a year earlier. That figure may increase as monthly payments for 450,000 subprime borrowers adjust higher in the next three months. At least a quarter of those homeowners have missed mortgage payments before the rate reset. The average five-year adjustable-rate mortgage rose to 6.05 percent today from 5.99 percent last week and the average five-year adjustable jumbo loan increased to 6.50 percent today from 6.47 percent last week, according to Bankrate.com. **Tighter lending guidelines are the biggest challenge facing borrowers, not mortgage rates, said Scott Tucker, a mortgage marketing consultant in Chicago who has a Web site he calls Mortgage Marketing Genius. Lenders are requiring borrowers to make higher down payments and prove they have cash reserves they can use for future payments, he said.** "To paraphrase Will Rogers, the banks are not concerned about the return on their money, they're concerned about the return of their money," Tucker said. **Fed's Rate Cut May Give Little Relief to Homeowners**
<http://www.bloomberg.com/apps/news?pid=20601068&sid=a0NFUXaw99j4&refer=economy>

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Macro Economic

- Sept. 30 (Bloomberg) -- Unemployment in the U.S. probably rose to a one-year high in September and manufacturing slowed for a third month as the housing recession reverberated through the economy, economists said before reports this week. The jobless rate rose to 4.7 percent even as hiring rebounded, according to the median forecast in a Bloomberg News survey of economists before an Oct. 5 government report. Industry data tomorrow is forecast to show factories expanded at the weakest pace in six months. Fallout from rising borrowing costs and declining home prices will hit the economy in full force in the fourth quarter as consumer spending fades, economists said. Waning demand may in turn prompt companies to scale back hiring and investment. "As home prices continue to fall, consumers will spend less," said Michelle Meyer, an economist at Lehman Brothers Holdings Inc. in New York. "Adding to consumer gloom, the labor market is starting to show signs of weakness." **Unemployment May Rise, Factories Slow: U.S. Economy Preview**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a3KoAvZKVEvg&refer=home>

- Sept. 27 (Bloomberg) -- Inflation in Germany, Europe's largest economy, accelerated to the highest rate in more than six years in September as prices of heating oil and food rose. **German Inflation Reaches Highest Rate in More Than Six Years** <http://www.bloomberg.com/apps/news?pid=20601068&sid=aCYVXziHJVqU&refer=economy>
- Sept. 24 (Bloomberg) -- General Motors Corp.'s U.S. factory employees staged their first nationwide strike in 37 years after the largest U.S. automaker failed to reach a new labor agreement with the United Auto Workers. The walkout, at 11 a.m. New York time, came 10 days after the union extended the old contract past its expiration while the two sides negotiated. The latest round of bargaining had run for more than 25 straight hours from yesterday morning until the strike. Talks resumed this afternoon. "It was a one-way set of negotiations," UAW President Ron Gettelfinger told reporters today in Detroit. "It was going to be General Motors' way at the expense of the workers. The company walked right up the deadline like they really didn't care, and as a result we called a strike." **GM's U.S. Workers Strike After Contract Talks Fail** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aUyfTBw6PzfQ&refer=home>

Retail

- 24 Sept - The downturn in the US housing market caused by the subprime lending problems buffeted **Wolseley**, which on Monday reported a fall in annual profits and warned there may be worse to come. After a sharp rise in amortisation from £48m to £124m (\$97m-\$250m), the plumbing and building supplies distributor reported pre-tax profits falling 17.6 per cent to £634m in the year to end July. Before amortisation of intangibles, profits were down 7.3 per cent at £758m. The results were worse than the market had expected and the shares fell 41p to 807½p on Monday. **Chip Hornsby, chief executive, said there were no indications of any recovery in the US housing market and warned that now the repair and maintenance market was declining as well. "People are putting off major remodelling and we are concerned about the traffic in and out of our showrooms," he said. "We are still cautious but September and October will be the real indicators of demand."** The main culprit for the fall in profits was Stock, Wolseley's US building materials business which supplies housebuilders. Its trading profits fell 77 per cent to £44m as its volumes fell 15 per cent. But this was better than the 25 per cent decline in the market. During the year Stock closed 46 branches and shed 3,500 jobs. "We cut 20 per cent of the workforce at Stock last year and there is scope for more cuts, we just have to determine the markets in which we want to ride out the difficulties," said Mr. Hornsby. He said it was too early to predict when the US housing market might recover and added "it could get worse before it gets better". **US housing woes hit Wolseley's profits [Wolseley's is a British company, who remembers the good old days of "sub-prime problems are contained"?!]** <http://www.ft.com/cms/s/0/430197c6-6a6a-11dc-9410-0000779fd2ac.html>
- Sept. 25 (Bloomberg) -- U.S. retail sales fell 1 percent last week from the previous seven days, the second consecutive decline, and September sales may rise less than previously estimated, according to a report by an industry group. The International Council of Shopping Centers Inc. and UBS Securities LLC lowered their estimate for sales growth in

September to as little as 2 percent from 2.5 percent previously. Demand rose 2.4 percent in the week through Sept. 22 from the same period a year earlier, the group said today in a statement. **U.S. Retailers' Sales Fell 1% Last Week, ICSC Says**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=awANZXA5EJA8&refer=home>

- Sept. 24 (Bloomberg) -- Lowe's Cos., the second-largest U.S. home-improvement retailer, said earnings this year may be below its prior forecast because a drought slowed sales of outdoor equipment and garden products. Lowe's shares fell as much as 6.7 percent after the U.S. markets closed. Profit may come in at the low end or slightly below an Aug. 20 forecast of \$1.97 to \$2.01 a share, the Mooresville, North Carolina-based company said today in a statement. Eighteen analysts surveyed by Bloomberg estimated an average profit of \$2.01. Dry conditions in parts of the mid-Atlantic, southeastern and western U.S. hurt sales of outdoor products as customers dealt with water rationing and extreme heat. Lowe's and larger Home Depot Inc. have struggled as a slumping housing market, especially in Florida and California, has eroded demand for remodeling. "Many uncertainties remain, and it seemed prudent to further temper our sales and earnings outlook," Chief Executive Officer Robert Niblock said in the statement. **Lowe's Says Annual Profit May Trail Earlier Forecast**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aYkXvQ9H36KQ&refer=home>

Retirement

Risk

- Chinese stocks are on an amazing run. The Shanghai Stock Exchange is up almost 200% over the past year. And it's going parabolic. There's nothing logical about this type of move... It's all about momentum. Logic and momentum often follow the same path. Sometimes, though, momentum gets too far ahead. The results are almost always disastrous... But it takes a while to play out. Think about Internet stocks back in 1999. The disconnect between logic and momentum lasted forever. Investors rode stocks like JDS Uniphase, Sycamore Networks, and Commerce One to dizzying heights. Fortunes were made on the way up – just as fortunes are being made in China right now. But even bigger fortunes were lost when the Internet bubble popped. And the same fate awaits those who stay in China too long.
http://www.growthstockwire.com/archive/2007/sep/2007_sep_25.asp?printdoc=print

Savings Rate

Tech

Wall Street

Sept. 29 (Bloomberg) -- [U.S. stocks rose this week to complete the steepest September advance since 1998](#) as the Federal Reserve's interest-rate cut helped energy and raw-material companies lead the market's recovery from a summer rout. Exxon Mobil Corp., Freeport-McMoRan Copper & Gold Inc. and Monsanto Co. climbed after the falling dollar sent commodities to the biggest monthly gain in 32 years, led by crude oil, gold and wheat. Goldman Sachs Group Inc. rose the most during September in the Standard & Poor's 500 Index, which gained for the fifth straight quarter, after the securities firm reported the third-highest profit in its 138-year history. The Fed's Sept. 18 reduction to 4.75 percent of its rate for overnight loans sustained the stock market's recovery from losses spurred by subprime-mortgage defaults. In July and August, the S&P 500 had the largest slump in four years. **“The Fed easing was the catalyst for everything,”** [\[no argument from me other than whether the move should have been bought\]](#) said Ed Peters, chief investment officer at PanAgora Asset Management in Boston, which manages \$22 billion. “Commodities will continue rising in price,” lifting shares of their producers, because the rate cut may boost inflation. **U.S. Stocks Have Biggest September Gain Since 1998 on Rate Cut**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a5tvaETqVbXM&refer=home>

Sept. 24 (Bloomberg) -- The Federal Reserve has driven most stock-market bears into hibernation.

From UBS AG to Deutsche Bank AG and Citigroup Inc., Wall Street strategists are the most bullish they've been since 2000 after the U.S. housing slump erased \$5.6 trillion from global equity markets and prompted the Fed to cut interest rates.

Wells Capital Management and MFS Investment Management, which together oversee \$375 billion in assets, are adding or looking to buy shares of banks, retailers, and technology companies on expectations lower borrowing costs and expanding economies across Europe and Asia will spur profit growth.

“You couldn't mix a better drink for the stock market,” [\[I would agree that anyone who thinks this is good news must be drinking.\]](#) said James Paulsen, who helps oversee \$175 billion as chief investment strategist at Wells Capital in Minneapolis.

Investors have been **celebrating** since the Fed's surprise half-point rate cut Sept. 18 sent the Morgan Stanley Capital International World Index of 23 developed markets on its biggest two-day rally since June 2006. They snapped up shares of commodity producers and industrial companies that will benefit the most in a growing economy and became cheap last month after global stocks fell to the least expensive in 12 years.

The bears haven't all retreated. Balestra Capital Ltd.'s Jim Melcher and the Leuthold Group say **the bulls are ignoring the reason for the central bank's rate cut -- concern that the world's largest economy is heading into a tailspin.** `Eye of the Hurricane' **Policy makers ``realize that there's a real economic threat of recession if we're not already in one and there's a brewing financial crisis,"** said Melcher, whose \$260 million Balestra Capital Partners LP hedge fund in New York has returned 124 percent this year with bets against financial shares and bonds backed by subprime mortgages. **The rebound in prices ``should be viewed as the eye of the hurricane,"** Steven Leuthold, whose \$1.72 billion Leuthold Core Investment Fund has beaten 97 percent of like funds this year, wrote in the September issue of the firm's monthly research report. The Minneapolis-based Leuthold Group is concerned the economy will contract next year and cut its equity allocation to 30 percent from 50 percent on July 17, two days before the Standard & Poor's 500 Index reached a record. **The rally has left the S&P 500 within 5 percent of strategists' average year-end forecasts of 1,595, the most bullish since December 2000, data compiled by Bloomberg showed.** ``If you've been an equity investor and gone away for the month of August and not read the paper, you'd wonder what all the fuss was about," [i.e. who cares that risk has reared its ugly face, we can ignore risk, nothing matters but our year end bonuses] said Alan Brown, who oversees \$276 billion as head of investments at Schroders Plc in London. Brown said the firm favors adding to stocks instead of government bonds and expects the S&P 500 will reach 1,600 by year-end. Unrepentant Bulls **None of the Wall Street strategists tracked by Bloomberg cut their 2007 S&P 500 forecasts through the sell-off, even as credit costs between banks surged to the highest in six years and subprime mortgage defaults deepened the worst U.S. housing slump in 16 years.** [the did not have it priced in and ignored it when it happened. This folks IS wall street] They have become more optimistic during the year, bringing the average estimate up from 1,550 in January. **The two most bullish firms, St. Louis-based A.G. Edwards & Sons Inc. and Frankfurt-based Deutsche Bank, on July 17 raised their year-end forecasts for the S&P 500 to 1,650 and 1,610, respectively -- three days before the index began its 9.4 percent plummet from a record. Six forecasters, including David Bianco of UBS and New York-based Citi Investment Research's Tobias Levkovich, expect the index to end the year at 1,600.** `End of Story' ``Housing just doesn't matter for the S&P," said Bianco, the New York-based strategist for UBS. ``End of story. [UBS announced a significant miss October 1, what a surprise with idiots like Bianco working from them] The concern about the spillover and what it means for energy companies, tech companies, industrial companies" is **overblown because they benefit from global growth. [global growth will carry us is the new "it is contained to sub-prime" – it is the mantra of those who have not a clue about anything other than last years news]**

James Swanson of MFS is also looking to purchase shares of the largest technology companies, along with regional banks. **He says now is a time to buy equities even though cheaper credit may exacerbate the risk of higher inflation in three to four years.** ``I am concerned about it, but what the heck," Swanson, who helps oversee about \$200 billion as chief investment strategist at Boston-based MFS, said from Truro, Massachusetts. ``It's four years down the road." [easily interpreted as "I care about my bonus this year and could not care less about my fiduciary duty to invest my client's money] **Suddenly a Good Bear Is Hard to Find as Stocks Rise**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aBu6gaMQRNHc&refer=home>

Sept. 24 (Bloomberg) -- Goldman Sachs Group Inc., the world's biggest and most profitable securities firm, has good news for its competitors: The worst credit-market shakeout since 1998 is abating. After winning its third-quarter bet against all forms of money devalued by the subprime mortgage collapse, while almost everyone else on Wall Street did the opposite, Goldman is signaling a turnabout. **“We are a lot closer to the bottom than where we were at the end of last quarter,”** Chief Financial Officer David Viniar said in an interview assessing the third-highest earnings in Goldman's history and the industry's only increase last quarter. “There are going to be opportunities in the mortgage business,” he said, and “there are certainly going to be opportunities to buy distressed assets.” The emergence of a bullish sensibility is resonating if only because so many of the New York-based firm's strategies have been on target. It was Goldman that foresaw this decade's bull market in fixed income and built a team of traders that generated a record \$14.3 billion of revenue last year. **Goldman's Patience Calling the Bottom Today, at least two of Goldman's rivals also are ready to call the bottom, even after timing it wrong in June. Lehman's O'Meara said on Sept. 18 that “we feel that the worst of this credit correction is behind us.” Bear Stearns's Molinaro, who on Aug. 3 said the fixed-income market was “about as bad as I have seen it” in 22 years on Wall Street, declared last week that “the worst is definitely behind us.”** To be sure, Goldman doesn't always get it right. The firm lost at least \$350 million in 1994 after betting on an increase in Treasury bond prices and a decline in the British pound, according to Lisa Endlich's 1999 book “Goldman Sachs: The Culture of Success.” When the Fed and the U.K. central bank raised interest rates, both trades went haywire. “Nobody is a super-trader,” said Bruce Foerster, a former Lehman executive who now runs South Beach Capital Markets, an investment-advisory firm in Miami. “Goldman was rocked by the 1994 trading losses. Everybody makes mistakes. Sometimes you're on the right side of the bet, sometimes not.” **Goldman Sees ‘Bottom’ as Besieged Wall Street Can't Yet Concur [we will revisit these comments in six months]**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aFlf202XPIQs&refer=home>

Don't Fight the Fed (a new section for some of the best of the “just buy it don't think for yourselves – trust us it is all blue sky” comments)

- You can't let the "it must be really bad" camp, which I thought would have surfaced last week but didn't, scare you out of the market, because it won't be the "market" that will outperform -- it'll be the economy. There is enough money dedicated to stocks and **enough (read: many) stocks that don't have anything to do with the economy [businesses that have nothing to do with the economy??????]** that you will be in fabulous shape even *if* we get a recession. – Cramer 9/24/07 4 PM

I Disagree . . . and why

Article of the week:

UM EMBA